UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/CN.3/1991/10
7 January 1991
ENGLISH
ORIGINAL: ARABIC

STATISTICAL COMMISSION
Twenty-sixth session
4-13 February 1991
Item 4 (a) of the provisional agenda*

NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Report of the Expert Meeting on the revision of the System of National Accounts in the Arab world

SUMMARY

The present preliminary report contains a summary of the main recommendations and conclusions emanating from the expert meeting on the revision of the System of National Accounts held in Tunis, from 11 to 16 June 1990, in preparation for the Second Arab Conference on National Accounts. The expert meeting was organized by the Arab Fund for Economic and Social Development in co-operation with the Economic and Social Commission for Western Asia, the Arab League, the Arab Monetary Fund and the Arab Institute for Statistical Training and Research.

* E/CN.3/1991/1.

CONTENTS

	Paragraphs	Page
INTRODUCTION	1 - 3	3
I. OBJECTIVES OF THE REVISION	4 - 6	3
II. CHARACTERISTICS OF THE ARAB ECONOMIES	7 - 12	4
III. COMMENTS ON THE REVISED SNA	13 - 80	6
A. Integrated analyses of production, income generation and income distribution	13 - 19	6
B. Valuation of value added	20	7
C. Classification of assets	21 - 32	7
D. Financial instruments	33 - 35	10
E. Transfer of resources between countries	36 - 51	10
F. Analysis of inflation	52 - 57	13
G. Role of the household sector in the economic process	58 - 65	14
H. Role of the public sector in the economic process	66 - 73	16
I. Comments on the accounting framework	74 - 80	17
Annex. LIST OF PARTICIPANTS		20

INTRODUCTION

1. An Expert Meeting on National Accounts in the Arab States was held at Tunis from 11 to 16 June 1990. Twenty-eight experts participated in the meeting (see annex I) which took place in the framework of preparations for the Second Arab Conference on National Accounts, to be held at Kuwait, from 14 to 16 October 1990, under the auspices of the Secretariat of the League of Arab States, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the Arab Centre for Training and Research in Statistics and the Economic and Social Commission for Western Asia.

2. In support of the efforts being made by the United Nations and the other international organizations represented in the Inter-Secretariat Working Group on National Accounts to revise the 1968 United Nations System of National Accounts (SNA), the experts devoted nine meetings to a discussion of the working paper on the main concepts and classifications of the revised SNA circulated by the Statistical Office of the United Nations and a number of papers prepared by the experts.

3. The report of the meeting comprises three sections. The first section deals with the objectives and rationale of the proposed revisions to the SNA; the second section deals with the characteristics of the region; and the third section presents the comments of the experts on the revised SNA as proposed.

I. OBJECTIVES OF THE REVISION

4. The expanded SNA has three major goals: to clarify and simplify the concepts and classifications of the system, to achieve a harmonization with other statistical systems and to update the system and bring it into line with recent developments in economic relations. The SNA is being revised in line with the particular problems encountered by national accounts systems due to recent economic changes. These changes concern development and the building of a production base and the correction of its shortcomings with respect to developments in external relations in a changing international environment which is witnessing a modification in the international division of labour, and they deal with changes in wealth, the distribution of income and welfare.

5. The goals of the SNA revision are the improvement and expansion of the national accounts themselves in order to provide a suitable data framework for decision-making and movement towards the utilization of partial economic models in order to increase the effectiveness of national accounts not only as an information tool but also as a planning tool.

6. Since the need has emerged for Arab statistical organizations to develop their national accounting systems, and in order that such development may be in keeping with the international framework and thus facilitate international comparisons, it was deemed advisable to hold a meeting of experts to discuss the revised SNA in the context of the characteristics of the Arab region and in the light of its previous experience in using the system and its future aspirations in this regard.

II. CHARACTERISTICS OF THE ARAB ECONOMIES

7. The basic issue for the developing countries is resource development; therefore, greater attention must be focused on resource endowment statistics and income statistics dealing with the utilization and allocation of available resources.

8. With regard to physical resources, it may be noted that productive capital assets are normally subject to high levels of idleness. While it is customary in some countries to collect statistics or conduct surveys relating to the measurement of idle capacity, this has an impact on the principles for the valuation of available capacities and rates of depreciation and obsolescence. A part of the commodity stock belongs in reality to the category of "stagnant stock". This raises a problem in connection with valuation principles, particularly since the principles of commercial accounting may be suitable for estimating actual value, thereby causing a delay in the estimation of value added and the operating surplus. On the other hand, the most important resource for the Arab countries is the human factor. Putting aside the issues relating to the problems of measuring human resources, the need to increase the efficient utilization of the human element, which is essential to the development process, raises questions concerning the lack of interest in previous attempts to establish a uniform system of human statistics and their breakdown in accordance with sectoral and activity classifications that accord with those in use in economic accounts. With the increasing tendency towards regional integration and with the new groupings that have begun to emerge in the Arab region, attention is required to certain details that will help in gauging the effects of integrating measures. These would include: (a) a differentiation between the movement of individuals arising out of the opening of borders within the region and movement across the borders of the region; (b) a differentiation in the movement of capital transfers, particularly if they are treated in a special fashion that differs from the treatment of foreign capital and (c) the provision of a continuous picture of development in relation to production, particularly if the groupings were to concern themselves with the co-ordination of production and the establishment of stronger production links. This would require focusing on two aspects: the extent to which internal integration has been achieved, for the measurement of which input-output tables can be used; and the extent to which integration at the regional level has been achieved, which may involve the construction of regional input-output tables with all that that implies for definitions of establishments and goods and for valuation principles.

9. Particular surveys are often carried out in order to promote the measurement of productivity. However, the system must be capable of providing the necessary data base for the ongoing monitoring of basic production indicators, whether for each factor of production or for general productivity and the various activities.

10. There is a continuing trend in the Arab region towards privatization. Its achievement requires: (a) a separation between the activities of the public and private sectors and the provision of greater detail so as to assist in measuring and comparing the efficiency of performance over time; (b) the establishment of principles for the evaluation of basic services (education, health, etc.) in which

the private sector can participate, and the effect of the use of these principles in the two sectors on gauging the volume of activity and the degree to which it changes with the relative weight of the two sectors; and (c) an examination of the effect of transferring to the private sector in order to stimulate certain service-related activities normally undertaken by government agencies, such as cleaning services for government buildings or the distribution of water and electricity, including the hidden subsidies associated with those types of transfers.

11. With a view to encouraging Arab investment or for facilitating regional trade, exemptions are customarily given to financial commodity flows. It is important that an estimate be made of the volume of such exemptions and of their impact on income distribution in individual countries and at the regional level so that the distribution of benefits and burdens, an issue vital for integration, can be monitored. With the growing role of the private sector and an increasing reliance on market forces, planning methods are changing, and the role of economic and financial policies and of their various instrumentalities is becoming greater. This implies: (a) the expansion of the data base necessary for planning, whether at the national level or at the level of units of production; (b) the increased use of the system of national accounts to monitor the development process; and (c) the measurement of the impact of various policies, and the development and application of principles of accounting in various production units in order to facilitate the linkage between accounting at the establishment level and national accounting.

12. There are certain issues which carry great weight in the Arab region and require special treatment in national accounts. They include: (a) the refugee issue; (b) the use of the Hijjra calendar; (c) the question of allowing Arabs to hold capital assets, particularly land, and of according the right of residence to anyone who deposits a certain minimum amount of funds even if his major activity continues to be outside the country; (d) Arab investments overseas; (e) the special character of the oil sector and the dominance of a single economic activity; and (f) the informal sector and small industries, particularly since technological advance now permits the purchase of services, such as software, from individuals, or the pursuit of certain advanced production processes in household units. The latter type of activity is expected to increase, especially with the increasing number of stages of production and the endeavour of large-scale units to specialize in design and to assign the production of parts to units which work in accordance with the specifications laid down by them. This means that the informal sector will become a tightly organized appendage to the large corporations sector and will no longer be attached to the family sector in the traditional manner.

III. COMMENTS ON THE REVISED SNA

A. Integrated analyses of production, income generation and income distribution

1. Sectorization and statistical units

13. The revised SNA will incorporate a full set of accounts for each institutional sector, including production, income, capital, financial and balance-sheet accounts. At the same time, the production process will continue to be analysed in terms of finer units, namely establishments. On that basis, it has been decided that the basic statistical units for the whole range of accounts will be "institutional units", having regard for the definitions of the institutional unit and the establishment that have been adopted.

2. Alternative income concepts

14. The meeting endorsed the proposed alternative income concepts linked to production, and it was of the view that they should be considered as ancillary tools in economic analysis.

3. Production boundary

15. The meeting examined and expressed agreement with the proposed revisions regarding the production boundary.

4. Quasi-corporations versus unincorporated enterprises

16. The meeting examined and endorsed the definitions of corporations, quasi-corporations and unincorporated enterprises.

5. Market and non-market production

17. With regard to the distinction made between market and non-market production, the issue was raised of how to treat the costs of products sold at prices much below production cost for reasons of government subsidy policies. On the criterion for distinguishing between market and non-market production, it was agreed that there should be total flexibility unlinked with the criterion of 50 per cent coverage of production cost and that the criterion should depend on the nature of the product. The meeting was of the view that market producers should be classified in the corporations sector. The meeting reached no clear consensus on how to treat the differences when the output is considered a non-market production, whether they are considered part of government subsidies or government consumption.

6. Financial intermediaries: bank and insurance services

18. The experts discussed the material in the revised SNA relating to the concept of financial intermediaries, the replacement of imputed financial services by an imputed financial intermediation service charge and the statement that this charge should be allocated among uses on the basis of the difference between the interest rate actually received or paid and a central "reference" rate. The meeting welcomed this approach, although questions were raised as to the possibility of its practical implementation.

7. Imputations of rent on government buildings

19. The experts agreed on the necessity to impute rent for government use of the buildings it owns, but there was a difference of opinion on how the estimated rent value should be treated in the accounts and on the estimation of its intermediate consumption. Some proposed that the rental value should be considered as output and at the same time as government consumption, and that maintenance costs and other expenditures on such buildings should be considered as intermediate consumption of the nominal production unit in question.

B. Valuation of value added

20. The experts approved the simplification introduced into the valuation principles of products. There are now two types of distinctions in the valuation of products: (a) the distinction between basic prices and market prices, which refers to the exclusion and inclusion, respectively, of product taxes, and (b) the distinction between producers' and purchasers' prices, which refers to the exclusion and inclusion, respectively, of trade and transport margins. In their discussion of the valuation of final demand and value added, the experts agreed that outputs should be valued at basic prices and inputs at purchasers' prices.

C. Classification of assets

21. The experts studied the proposals referred to in the discussion paper and the relation between the asset boundary and the production boundary. They showed great interest in the classification of assets as produced and non-produced, and thus stressed the importance of measuring changes in net worth, a new concept in the accounts of the system. In connection with the coverage of produced assets, the experts considered a number of topics.

1. Research and development

22. Research and development expenditures were discussed in detail, and a number of different views emerged. They included the view that research and development expenditures should be regarded as current outlay classified in accordance with the sector in which it is made (intermediate consumption or final consumption, as in the case of the government sector, for example); and the view that a distinction should be made between expenditures on applied research leading to increased production for a period of more than one year, which should be considered as capital formation (assets), and between expenditures on other research and development, which should be considered as intermediate consumption.

2. Mineral exploration

23. In discussing this topic, the experts supported the recommendation that outlays on mineral exploration should be treated as capital formation, and this is the approach that has been used in the region.

3. Intellectual property

24. While many questions were raised on the issue, the meeting formulated no precise view with regard to intellectual property.

4. Software

25. The experts agreed that software, whether purchased at the time the hardware is purchased or independently, should be treated as capital formation, as proposed for the revised SNA.

5. Environmental assets

26. The experts agreed that the tentative classification proposed for environmental assets represented a sound point of departure for the study of this important subdivision. The experts proposed that environmental assets should be included in national balance sheet.

6. Natural growth

27. Some experts were of the view that natural growth cultivated by human effort should be counted as production whose value should be imputed at the time of harvest or use. Some were of the view that such production should be estimated annually on the basis of cost incurred.

7. Other assets

(a) Military durables

28. The experts considered military expenditure on durables, and there was a tendency to regard all military expenditure as consumption expenditure, as had been the case in the previous system. Another view was that items used by both soldiers and civilians, such as roads, airports, hospitals, schools and the like, should be included in capital assets and the remainder considered as final expenditure. Thus, capital formation would not be inflated by non-productive assets, a matter which was particularly important since military expenditure was at a high level in the region.

(b) Government stocks

29. The experts agreed that government stocks should include all goods, while understanding the practical difficulties involved.

8. Depletable resources

30. The meeting discussed depletable resources in detail in view of their importance for the Arab region. The meeting was of the view that the following points should be taken into consideration:

(a) Net income arising out of such resources and differentiation of gross product arising out of their transformation from a physical asset into a liquid financial asset;

(b) The importance of the valuation of depletable assets in resource accounts. While there was general agreement with regard to the importance of treating income arising out of such resources and the importance of taking account of the depletion factor, as is done in case of capital consumption, there was no consensus on a modality of treatment.

31. The discussion of the second point took two major directions. The first stressed the importance of preparing the relevant national accounts in accordance with two methods: one method was to take depletion into consideration and determining net value added after a deduction for depletion, then adjusting all the other accounts in accordance with that concept of value added (net national income, capital formation and net savings) and valuing depletion, reserves and total new value added at current value. The other view was that income accounts should continue to be treated as it was at present and that the depreciation or depletion of depletable resources should be reflected in the resource account by means of revaluation.

32. In either case, the meeting did not decide on the concept of net income or the depletion factor. A number of views were put forward centring on two concepts: the first defining net income by distinguishing between yield and net income on the basis of production cost, and the second defining net income in relation to the

depletion factor on the basis of the proven reserve and total new value added at current financial value. The meeting strongly stressed the importance of the preparation of national balance sheets in view of their extreme importance, and it was of the view that the subject required more investigation.

D. Financial instruments

33. The experts considered the enormous developments taking place with respect to financial instruments, the impact of those developments on national economies in the region and the basis on which financial instruments should be treated in national accounts and balance-sheets, sectoral accounts or financial flow tables, which must necessarily be lined together. In this connection, the following points were discussed:

(a) Expanding coverage of the financial sector to include all units operating in the field of financial intermediation, as indicated in the proposed system, by including financial auxiliaries such as brokers and dealers together with financial intermediaries;

(b) The classification of unincorporated financial enterprises with the household sector. After discussion, the experts agreed with the proposed classification of financial intermediaries contained in the revised SNA. Some proposed that a special item should be established for the public treasury and that it should be separated from the government sector.

34. Experts were of the view that the major criteria for considering an instrument to be of a financial character are an unconditional commitment to pay and transferability. With regard to the most important of the new financial instruments, namely financial leasing, bankers' acceptances, repurchase agreements, zero-coupon bonds and hedging instruments, the experts welcomed the efforts made to define them and their inclusion in the category of financial instruments. They were of the view that the difference between the issue price and the value at maturity of zero-coupon bonds should be treated as a capital gain.

Insurance and pension funds

35. The experts were in agreement with the major revisions to the 1968 SNA with regard to the treatment of insurance and pension fund transactions.

E. Transfer of resources between countries

36. The experts discussed this item in the light of its special importance for the Arab economies, and they focused on the topics outlined hereunder.

1. Residence

37. The concept of residence is accorded particular importance in the Arab economies because of the wide-scale movement of labour among the Arab States and between them and the rest of the world, and it requires more detailed delineation in light of the dynamics of labour movement.

(a) Individuals

38. The experts agreed with the definition of residence given other than with respect to the application of the one-year rule. That would affect the accuracy of data, particularly those relating to external trade and balances of payments and, consequently, national income data. Many experts were of the view that flexibility should be used in the application of the time-period criterion and that other criteria should be added, such as income generated and the extent of the use made of and benefit derived from government services by persons present in the country. Some considered that the concept as expanded by the proposed criteria would achieve a harmonization among time series in statistics, whether with regard to balance of payments or national accounts. Some experts were of the view that refugees should be considered as residents.

(b) Enterprises

39. The participants did agree with the principle applied to enterprises, provided that the time stipulation was regarded with a degree of flexibility. There could be no harm in making use of other factors in establishing the resident status of an enterprise. Some participants raised the problem of the so-called "sponsorship" system, as it exists in the Gulf countries, where foreign enterprises engage in economic activity on a sub-contractual basis through a national, who is licensed to engage in such activity, against payment of agreed monetary sum on the understanding that he will sponsor those employed by the enterprise. Hence, the quality of residents applies to the individuals employed by such an enterprise but not to the enterprise itself.

(c) International organizations

40. The experts welcomed the treatment of the residency status of international organizations in the revised SNA.

(d) Foreign control

41. The experts were of the view that the definition proposed for the revised SNA is in keeping with economic conditions in the Arab countries and that it will assist in the analysis of activities. Some considered that there was a need to observe flexibility in determining the level of participation for joint enterprises, that it should not be limited to 50 per cent and that its determination should be left to each country in accordance with its own particular circumstances.

42. In another respect, the experts stressed the importance of treating offshore units and free zones as resident units, with a distinction being made between free zones with an inland orientation and free zones open to the outside world from the point of view of the objective and nature of the activity in which they were engaged, the former being economically lined with the sectors of the national economy while the latter were directly linked with the outside world.

2. Exports and imports of goods and services

43. The experts agreed that, in the revised SNA, the coverage of imports and exports and their component parts in both national accounts and the balance-of-payment system must be defined in an identical fashion. Accordingly, they approved the conclusions reached in the revised SNA with regard to the valuation of imports at f.o.b. prices, its adoption of change of ownership as the major criterion for the recording of transactions and the proposed treatment of exceptions relating to shipment of goods between the head office and its branch, shipment of goods between affiliated companies, goods shipped under financial lease arrangements and goods for processing and re-export. The experts supported the current trend towards expanding the coverage of non-factor services to include traditional items, such as transport and travel, and also those items that are becoming increasingly important in international transactions, such as financial services, communications services and information services, in view of the particular importance that they have begun to assume in the economies of the region.

3. Capital flows

(a) Investment of earnings

44. The experts discussed the manner in which undistributed earnings attributable to foreign direct investment should be treated in the case where they were reinvested in the host country. They agreed to the proposal that reinvested earnings should be included in the accounts as part of the receipt/payment of property income and concurrently as part of the increase in foreign financial/liabilities/assets in the external sector account.

(b) Bad debts

45. The treatment proposed in the new system is based on the distinction between debts in respect of which a decision on non-payment has been reached by contractual agreement between both parties. The experts agreed to the proposal that the latter should be treated as the cancellation of an external transaction and that the offsetting entry to the reduction in debt should be reflected under capital transfers. No agreement was reached on a modality for treating the former case, that in which non-payment is attributable to one side only, and it was considered that the treatment proposed might have some shortcomings.

46. The meeting agreed with the SNA proposal to the effect that the 1968 SNA treatment of arrears in debt payments should be retained, so that debit entries are recorded in the current and capital account, respectively, of the debtor, and

contra-entry is shown in the financial account in respect of the credit which has been involuntarily provided to the debtor. With regard to debt/equity swaps, the meeting was of the view that their treatment required more thorough study.

(c) Gold monetization/demonetization

47. The experts agreed to the proposed classification of gold in the new SNA as monetary gold, namely that owned or controlled by the monetary authorities, and other gold, which is to be considered a commodity in accordance with the approach of the balance of payment systems. They also agreed to the proposal that the reclassification of monetary gold to commodity gold and vice versa should be reflected in the reconciliation account.

4. Valuation of external transactions

48. The experts agreed with the proposed treatments for the following items.

(a) Uniform exchange rates

49. When there is a single exchange rate for a foreign currency and the differential between the selling and buying rate is within reasonable limits, that is to say that there has been no change in the relative values of currencies, net proceeds should be classified as financial service charges. If, however, the differentials between the currencies are due to inflation or other factors, they should be treated as holding gains or losses and recorded as capital profits or losses.

(b) Multiple exchange rates as a result of a particular policy

50. In the case of multiple exchange rates, the experts agreed that the net proceeds accruing to the authorities as a result of transacting in the multiple rates should be treated as a tax or subsidy. The meeting discussed the proposed method of calculating the taxes or subsidies for each transaction, namely, the difference between the value of these transactions at the actual rate paid and the weighted average rate for all transactions in the external account, and a number of questions were raised with regard to the manner in which the weighted average rate was calculated.

(c) Black market exchange rate

51. The experts agreed that the black market exchange rate should be included in the calculation of the weighted average rate and the difference treated as a transfer.

F. Analysis of inflation

52. There was great interest in the discussion of the advantages and disadvantages of the various methods of measuring inflation. A comparison was made between the traditional formulae of Paache, Laspeyres and Fischer and the chain indices method,

and none of the methods was recommended to be followed to the exclusion of the others. Four sets of views on the matters in question can be distinguished, and the basic concerns of each are summarized here.

53. The first group was of the view that, with regard to the aspect of creating product, direct deflation should be used in each sector, together with the need for the necessary data for doing so to be available. It considered that the elements of the system of national accounts and the related basic statistics provided the possibility of doing that. In the event that this desideratum is impossible to achieve, there is then no alternative but to deflate the general index number by weights reflecting the relative importance of commodities in their sectoral groupings while allowing for seasonal variations.

54. The second group considered that constant pricing operations should be linked with the objective they sought to achieve. In that case, the major goal of constant prices must be identified, whether it is to measure change in capacity to generate well-being or change in the production structure or its productivity. In that light, the choice between alternative measures depends on which of them is most suitable to achieving the objective of using constant prices. With regard to the treatment of external commodity price changes, the second group considered it important to distinguish between exports and imports and that it was accordingly necessary to deflate exports by the prices of imports.

55. The viewpoint of the third group centred around the importance of treating relative price changes and the need to take rates of exchange among sectoral groupings into consideration when deflating price changes for each group.

56. The viewpoint of the fourth group was that if the objective was to measure the purchasing power of income as an indicator of well-being, then it was best to abandon the concept of constant prices.

57. Despite the fact that time constraints prevented full discussion of the recommendation made in the revised system with regard to the treatment of price differences for identical products, quality changes, unique products and price and volume measures for non-market services, it is useful to indicate that these recommendations have been put into operation in the region.

G. Role of the household sector in the economic process

58. The experts discussed the role of the household sector in production, given that a large number of economic activities are carried out by households. The experts also discussed household sector production accounts, "mixed income" and entrepreneurial income, and a discussion took place of the socio-economic classification of households and the role of the government in financing consumption of households. The comments of the experts on some of the questions discussed at the meeting follow hereunder.

1. Classification and identification of households and private non-profit institutions

(a) Breakdown of households by socio-economic groups

59. The experts agreed to the sub-sectoring of the household sector by socio-economic groups so that the SNA accounts would contain the main elements of "Social Accounting Matrix". The experts further recommended that, in order to increase the analytical power of the social matrix, countries should use additional subdivisions in accordance with their own analytical needs, for example, classification of households by rural/urban, by educational level or by economic activity of the head of household.

(b) Formal versus informal activities

60. The experts considered how to distinguish between formal and informal activities, but no final decision was reached. It was agreed that the criteria for the distinction should be examined further and acceptable definitions adopted for use in national accounts in consultation with the International Labour Organisation.

(c) Allocation of non-profit institutions (NPIs) to sub-sectors

61. The experts agreed with the proposal that, in the revised SNA, NPIs serving households should be included in the household sector and that these institutions should be included with the institutional sectors which they serve.

(d) Valuation and classification of capital formation resulting from community activities

62. The experts discussed the modality for treating construction activities carried out collectively, for example, a road or school built by the people of a village. In that connection, the experts agreed that: (a) such outlay should be regarded as part of capital formation; (b) the activity should be treated as that of a non-profit institution; (c) in valuing output no imputation should be made for the voluntary labour, and that the finished asset should appear in the balance sheet of the sector responsible for its upkeep.

2. Consumption expenditure and disposable income

63. The experts discussed the differentiation of consumption expenditure, actual consumption and disposable income. They supported the approach of having an account for each of the consumption expenditure and disposable income in each sector and recording transfers in kind to the household sector as imputed income. They also agreed to the division of government consumption expenditure into administrative expenditure and social expenditure and on the need to distinguish "individualizable" expenditure, which benefits certain households, from collective expenditure, which benefits the society or the economy as a whole. The experts agreed with the recommendations contained in the revised system with regard to this item.

64. The experts also discussed expenditure of enterprises either for the benefit of their employees alone or for the benefit of the population as a whole, such as the expenditures on commercial television, radio and the press. The experts agreed that such expenditure should continue to be regarded as intermediate consumption and that expenditure for the benefit of employees should be taken into consideration when estimating the compensations in kind of the employees of the enterprises.

65. The experts reached no firm decision on whether government subsidies to market producers that would make certain goods or services available to the public at prices below the costs of production of those commodities should be considered as government consumption expenditure or as partial payments for the good or service.

H. Role of the public sector in the economic process

66. The experts discussed the nature of the public sector, its impact on the rest of the economy and the special character and importance of its role in the developing countries in general and in the Arab countries in particular. A discussion took place on the character of public enterprises and of transactions within the sector in the light of the criteria contained in the revised SNA with regard to the boundary and institutional structure of the sector and the control criterion required by its function of not only guiding economic activities and achieving the required equilibrium among them but also in treating the transfer of resources between countries.

67. There was general agreement that the SNA analysis of the sector should be as close as possible to that reflected in the International Monetary Fund (IMF) publication Government Finance Statistics (GFS) and that, with the retention of the SNA cash basis and the GFS accrual basis, a number of modifications would be necessary in order to link the two systems together and form a kind of "bridge" between the concepts employed in the preparation of government statistics and those employed in the preparation of national accounts estimates.

68. The treatment and classification of social security funds, social transfers and taxes and other public sector transfers proposed in the revised SNA are generally acceptable but should, however, be sufficiently flexible to enable each country to adapt them to the nature and functions of its own public sector and its structural classifications.

69. In the light of the above points, agreement was reached on the adoption of the same rules for identifying corporations, quasi-corporations and unincorporated units with respect to the public sector as those related to the household sector. Accordingly, government-owned, unincorporated public enterprises are treated separately from producers of non-market government services in the analysis of production and are not to be detailed in the sector accounts.

70. There was general agreement to treat corporate enterprises as public if the government owns the majority of their equity or exercises control over their economic behaviour. The experts agreed that the structural classification of

general government institutions could be modified in the way proposed by the revised system and that an intermediate level of government could be added between central and local government, thereby allowing greater flexibility in the practical application of the classification.

71. The experts agreed with the recommendation of the new system that flexibility should be introduced into the classification of social insurance and social security funds so that they could be classified, alternatively, as part of the level of government at which they operate or as a subsector separate from the other operations of all levels of government. No preference was expressed for either of these alternatives over the other.

72. The classification of government pension funds would continue to be treated as in the 1968 system since there was difficulty in changing it at the present time. It was felt that government employees' welfare schemes and unfunded pension schemes represented an extension of more generally applicable social security programmes, and the experts therefore agreed with the recommendation contained in the revised system that contributions to and benefits from such schemes are to be classified as social contributions and social benefits, respectively, rather than as other transfers paid to or by government.

73. With regard to taxes and other public sector transfers, the experts agreed with the recommendation of the revised system that the previous term "indirect taxes" should be replaced by the term "taxes on production and imports", the term "direct taxes" by the term "current taxes on income and wealth", the term "capital transfers to government", including estate and gift taxes and non-recurrent taxes on property, by the term "capital taxes", and the term "commodity taxes" by the term "taxes on products and other production taxes". Taxes on products would be broken down between taxes on imports and taxes on exports. Current taxes on income and wealth would be subdivided into taxes on income and other current taxes. Other current taxes would include recurrent taxes on property collected from non-business taxpayers, since recurrent taxes on property paid by businesses constitute a cost of production and are classified as other taxes on production. It is to be noted that the classification of taxes and transfers at the second and third levels contains sufficient flexibility to enable countries to adapt them to their prevailing tax legislation.

I. Accounting framework

1. Sequence of accounts

74. The proposed system provides a good sequence for the various major flows in the national economy depicting all stages of operations from production to balance sheets. These accounts are presented in a set of detailed (full sequence) accounts, a set of sectional accounts, a set of integrated accounts and a set of simplified accounts for the nation, which replace the Consolidated Accounts for the Nation in the 1968 SNA.

75. The meeting was of the view that the simplified accounts, although derived from the sectoral accounts, nevertheless did not show the role of each sector and its overall contribution to economic activity. Accordingly, the experts considered that this aspect should be taken into account and that the role of each institutional sector should be brought out in the simplified accounts.

2. Satellite accounts

76. The proposed system contains a set of satellite accounts in order to meet needs that are not provided for in the accounting framework. Since the experts were of the view that the human factor was basic to the production process, they proposed that the satellite accounts should reflect human services alongside the environmental accounts and any other satellite accounts.

3. Links with other systems of statistics

(a) Balance of payments

77. With regard to the relation between balance of payments and national accounts, the experts supported the approach calling for a harmonization of the two systems with regard to concepts and definitions. The problem was raised of the relation between a system based on the physical movement of goods into and out of a country and the information contained in the balance of payments, which is based on actual currency exchange records given the inability of central banks and banking institutions to provide detailed information on operations involving the actual physical movement of goods. The experts also pointed to the difficulties encountered by central banks and banking institutions in providing detailed information on unrequited transfers or the income of factors of production. It was also pointed out that in the case where data on exports and imports were taken from customs statistics, the difference between them and the data contained in the balance of payments should be considered as change in stocks.

(b) Financial flows

78. The experts stressed the importance of financial flows as a complementary section within the framework of national accounts. Some suggested that there should be an item for the public treasury within the financial intermediaries sector. The experts further discussed expanding means of payment and using methods of estimation (imputation) for certain financial flows in order to achieve a balance between imputed values and financial flows.

(c) Input-output

79. The experts studied the close relationship between input-output tables and national accounts. They agreed that national accounts were a comprehensive framework which included input-output tables, and some experts stressed the importance of preserving the divisions by institutional sector within the sectoral structure in the table.

(d) Trade accounting systems

80. In this connection, the discussion addressed itself to the experiment carried out by the League of Arab States (the Industrial Development Centre at that time) and a number of experts from the Arab States in linking the flows of the 1968 SNA with the corresponding items in the unified accounting system. The meeting considered it important that this idea should be adopted, and it called for efforts to be made to link trade accounting systems with the revised SNA.

Annex

LIST OF PARTICIPANTS

Kamil al-Addad	Ministry of Finance, Iraq
Khalifa Al-Faqih	National Institute of Statistics, Tunisia
Muhammad Mahmud Al-Imam	Former Minister of Planning, Egypt
Salem A-mmari	National Institute of Statistics, Tunisia
Abd al-Bari Az-zanni	National Accounts Expert, Libyan Arab Jamahiriya
Abd Al-Latif Balkush	Directorate of Statistics, Morocco
Majid Basil	Central Bureau of Statistics, Syria
Muhammad Muhammad Bayyud	Researcher on National Accounts, Libyan Arab Jamahiriya
Al-Hadi Mammu	National Institute of Statistics, Tunisia
Muhammed Monssa	National Institute of Statistics, Tunisia
Hussein Ali Muhammad	Ministry of Planning, Kuwait
Muhammad Yusuf Rashid	Central Statistical Organization, Egypt

United Nations Secretariat

Statistical Office of the United Nations Secretariat

Adel Al-Akel, adviser

Economic Commission for Africa

Muhammad Uthman Al-Uqayli

Economic and Social Commission for Western Asia

Labeeb Abdunnur
Aziz al-Din al-Tiji
Muhammad Bashrahil
Nuzhat Chalak
Sa'ad Hafiz
Mahmud Al-Sayyid Mahjub
Kotb Salem

Intergovernmental organizations

Arab Fund for Economic and Social Development

Abd al-Mu'min Al-Oulabi
Mervat Badawi
Sami Iskandar

Arab Institute for Training and Research Statistics

Abd al-Rahman Al-Juburi

Arab Monetary Fund

Salih Ajaban

Secretariat of the League of Arab States

Mumtaz Al-Husayni
Kamal Sanadah